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KEDI ECONOMIC SURVEY

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November 30, 1979

President: Vladimir J. Simunek

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

Our forecast of an impending mild decline does not deviate significantly from the forecast presented in the October issue. We maintain our prediction of the following trend:

Fourth quarter 1979 and first quarter 1980: Decline in economic activity.

Second and third quarters 1980: Increase to pre-recession level.

Fourth quarter 1980 and the year 1981: Sluggish growth with a more significant upturn not expected before the second half of 1982.

Since 1976, this Institute has maintained in each forecast that 1979 would be characterized by an economic slowdown, but NO recession, a view which has contrasted sharply with predictions of other major forecasters. (One well-established U.S. forecaster has been constantly predicting the recessions each year since 1976).

KEDI's forecast has been confirmed by recently released data from the U.S. Department of Commerce which indicate 1979 will not be marked as a recession year.

KEDI maintains that the slowdown in economic activity will be only temporary and relatively mild, followed by sluggish growth in 1980 and 1981. Many other forecasters NOW have begun to adopt this position.

Indications from the business world also tend to support this prediction. In the area of business capital outlays, the stagnation is predicted by

most forecasters. Wall Street economists expect business investments to drop soon and level throughout 1980. Alan Greenspan, head of the consulting firm Townsend-Greenspan & Co., was recently quoted as saying capital outlays are expected to drop 6.3% in 1980, but with positive real growth expected by 1982. The Conference Board, a business research organization, expects a decline of 8% or more, in real terms, during 1980.

Consumer spending, after an adjustment for inflation, is predicted by some economists to rise only 0.6% next year following a large decline during the fourth quarter of 1979. Real spending for durable goods is expected to be under year-earlier levels for the next five quarters, with the decline being felt heavily in the automobile industry.

Steel demand in 1980 is expected to fall off about 6% from 1979 levels with industry shipments falling about 10%.

The U.S. Department of Commerce estimates that while spending for new construction in 1980 will equal spending in 1979, about 9% less actual work will be financed because of inflation. Their forecast is based on a prediction of a moderate recession lasting until the second half of 1980.

The projections of a mild decline in economic activity is supported by the following developments: The Conference Board's Index of Consumer Confidence has increased for the second consecutive month, indicating that consumers are reversing the pessimistic outlook about the economy which was prevalent during the first half of the year.

Another bright note is a surge in machine tool orders, which normally

are placed about two years in advance. This would indicate that industries, particularly the automobile and aircraft industries, see the light at the end of the tunnel, so to speak, and expect an upturn in 1982.

KEDI forecast is highlighted in Table 1.0 on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the October, 1979, forecasts, the changes concern the Assumption No. 1.

1. In 1979 and 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1979 will average $26 per barrel and in 1980 this figure will go up to the $32 range. In 1981, it is expected the price will go up on $36 and in 1982, on $43 per barrel.

2. The supply of Iranian oil will settle to a normal flow in the second part of 1980.

3. Starting third quarter 1979, the Administration will pursue the policy of maintaining high interest rates and tight money. In the second or third quarter of 1980 it will adopt fiscal measures aimed against further increases in unemployment. The monetary policy will ease during this same time.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1978	1979	1980	1985
Gross National Product	bil. 1972$	1399.2	1427.3	1426.6	1702.4
Index of Industrial Production	1967 =100	145.2	151.8	151.6	167.0
Capacity Utilization	%	86.4	85.5	80.8	85.9
Unemployment Rate	%	6.0	6.0	6.9	6.1
Private Housing Starts	mil. units	2.020	1.728	1.526	1.896
Car Sales	mil. units	11.3	10.7	10.1	12.3
Implicit GNP Price Deflator	1972 =100	152.1	165.3	178.9	273.4
Consumer Price Index	1967 =100	195.3	217.3	238.6	371.6
Producer Price Index	1967 =100	209.3	234.4	264.4	397.5
Federal Deficit	bil. $	-27.7	-11.0	-19.7	-20.6
Personal Income	bil. $	1717.4	1918.4	2168.1	3249.7
Prime Rate	%	9.06	12.73	13.24	9.96
Mortgage Rate	%	9.30	10.52	11.35	9.78
Currency plus Demand Deposits	bil. $	352.8	376.4	414.5	640.4
Commercial and Industrial Loans	bil. $	230.9	263.8	277.8	441.5

the limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will expand more rapidly starting the end of this year, and will gain a substantial momentum in 1980 and 1981.

6. This year, the U.S. will experience a good harvest and the U.S.S.R. an extra low one. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops.

7. It is projected here that the rates of growth in 1979, 1980, and 1981 in the major industrial countries will be as follows for real GNP:

	1979	1980	1981
West Germany	3.0%	3.1%	3.4%
Italy	2.9	3.0	3.1
Japan	3.2	3.5	3.7
Great Britain	1.4	1.8	2.1
France	2.8	2.9	3.0

8. No abrupt changes in political situations in the world will occur.

9. The attitude of businesses and consumers will remain at low levels in 1979 and throughout 1980. A significant change is assumed to occur in 1981, due mainly to the Administration's policy aimed to stimulate the increases in productivity in the economy.

1.1 REAL GROWTH
(Table 01. on page 9)

Despite growing signs of weakness in the economy, the overall picture still has some bright spots. Our forecast data here have been changed very slightly from the previous issue, due mainly to:

(1) Revised GNP and components estimates for the third quarter 1979, which are higher than previously announced.

(2) Record levels of machine tool orders in October and indications that November's figures will also be high. Many machines won't be delivered for one to two years, indicating that businesses are expecting an upturn in 1981 and 1982.

(3) Increases in construction spending and retail sales in November. Major retailers reported slight gains for November, but these figures failed to keep pace with inflation. Kmart's sales are up about 13% from last year and F.W. Woolworth's sales are up about 10%.

(4) Good overall performance in manufacturing in October. The index of industrial production has been up and there has been a substantial increase in the production of consumer goods. A temporary decline in business equipment is attributed largely to strikes by the United Auto Workers union against Deere & Co. and Caterpillar Tractor Co., manufacturers of farm and construction equipment.

The forecast of capacity utilization rates in Table 01. has been increased due to the revision of the historical series conducted recently by the Board of Governors of the Federal Reserve System.

Due to (1) through (3), above, we have increased our prediction of real growth slightly.

KEDI's forecast of a mild recession has been confirmed recently by Treasury Secretary G. William Miller. Miller expects the economy will follow a "lazy W" pattern, declining, recovering and declining again. This pattern has occurred during 1979, with a downturn during the second quarter, an upswing in the third quarter, and now an expected slump during the fourth quarter. Miller expects a recession into the early part of 1980 with recovery beginning during the second half of the year.

In real terms, our forecast does not indicate that the Iranian crisis will have a significant impact. We maintain that the longer the crisis holds, the more it will magnify the risks of an economic downturn. The crisis is still too current for us to change our Assumption No. 2, which says that the flow of Iranian oil will resume at normal levels during the second half of 1980.

KEDI's position follows the majority of other forecasters: the impact will be felt more in the prices of oil and the international position of the dollar than in real terms.

Analysis of the recent data shows that the economy is sliding into a mild recession, as outlined in our previous forecasts.

(1) Orders for durable goods in October fell an adjusted 4.2%, due mainly to a decline in orders from the aircraft industry.

(2) Inventories were reduced sharply in October, according to a survey of corporate purchasing managers, recently released by the National

Association of Purchasing Management.

(3) Automakers have cut their already low December production schedules. The current schedule is the second lowest for December in 15 years. (The lowest was in 1974). New-model car sales are running about 19% behind year-earlier levels.

(4) The nation's productivity during the third quarter was even worse than the original figures indicated, according to revised Labor Department data. Productivity declined at a seasonally adjusted 0.7%, compared to earlier figures which showed slight increases in the private and non-farm business sectors.

Data for (1) - (3) are in line with the KEDI forecast. The data (4) worsen the long-term outlook for the U.S. economy. If the declining trend in the productivity of U.S. labor will continue, the upwards revision of price forecast will become necessary. Present KEDI forecast contains a less significant decrease in productivity, namely .2% for the third quarter 1979, and the resumption of positive growth in 1981. For the year 1980, we expect the levelling off, with slightly positive growth of .1% at the end of the year.

1.2 PRICES AND NOMINAL GNP
(Table 02. on page 12)

Two adjustments have been made here since our October forecast. We now expect:

(1) A larger jump in the international price of oil than we previously assumed (Assumption No. 1), and

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Gross National Product, 1972$	bil.$	1399.2	1430.6	1422.3	1434.4	1421.8	1427.3
Index of Indust. Production	1967=100	145.2	151.5	151.8	152.2	151.2	151.8
Unemployment Rate	%	6.0	5.8	5.7	5.8	6.5	6.0
Capacity Utilization Rate	%	86.4	86.7	85.9	85.3	83.9	85.5
Private Housing Starts	mil. units	2.020	1.616	1.837	1.825	1.633	1.728
Car Sales	mil. units	11.3	11.7	10.9	10.5	9.7	10.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Gross National Product, 1972$	bil.$	1427.3	1414.8	1416.9	1430.7	1443.8	1426.6
Index of Indust. Production	1967=100	151.8	149.7	151.2	152.3	153.0	151.6
Unemployment Rate	%	6.0	7.1	7.0	6.6	6.8	6.9
Capacity Utilization Rate	%	85.5	80.1	80.0	80.4	82.6	80.8
Private Housing Starts	mil. units	1.728	1.414	1.508	1.604	1.574	1.526
Car sales	mil. units	10.7	9.3	9.7	10.4	10.7	10.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972$	bil.$	1426.6	1450.2	1463.5	1473.7	1490.3	1469.5
Index of Indust. Production	1967=100	151.6	153.2	153.9	155.1	155.7	154.5
Unemployment Rate	%	6.9	6.2	6.5	6.4	6.2	6.3
Capacity Utilization Rate	%	80.8	83.3	83.7	84.1	85.1	84.2
Private Housing Starts	mil. units	1.526	1.536	1.692	1.788	1.807	1.708
Car sales	mil. units	10.1	10.4	11.2	11.3	11.7	11.2

*Historical data

(2) A lower price trend in consumer and producer prices than we previously anticipated. Our predicted price increases have been reduced somewhat due to the new forecast of a lower demand for new housing, services and automobiles in the consumer sector, and lower demand for construction and manufacturing products.

The above two adjustments have resulted in an insignificant change in the overall measures of price developments. The forecast data for the Implicit GNP price deflator in 1980 and 1981 have been reduced by an average 0.1%, the Consumer Price Index by an average 0.3%, and the Producers' Price Index by an average 0.4% to 0.6%.

In the area of food prices, the KEDI forecast is quite close to the recently released forecast of the U.S. Department of Agriculture. Both forecasts present a grim outlook, however, as the following comparison shows:

	USDA	KEDI
	Price increases in 1980 compared to 1979	
Beef and veal	+8.2%	+8.5%
Dairy products	+9.2%	+9.0%
Cereal and bakery products	+8.9%	+9.3%
Processed fruits and vegetables	+8.2%	+8.0%
Fats and oils	+7.4%	+7.6%
Sugars and sweets	+8.0%	+9.0%

In the area of producer's prices, KEDI expects the major increases, aside from energy items, to be in the prices of nonferrous metals, machine tools, plastics, electrical machinery, and chemicals.

An analysis recently conducted by KEDI shows that major contributors

to the inflation rate in 1980 and 1981 will be prices of exported and imported goods and services, mainly due to the low international position of the dollar. Export prices are expected to increase in 1980 and 1981 by 14.4% and 13.5%, respectively, and import prices by 15.8% and 15.0%, respectively. When excluded, the prices of exported and imported goods and services, the overall increase in prices would be significantly lower, namely the respective 8.9% and 8.5% when measured by the Producers' Price Index. The price analysis of the U.S. foreign trade will appear in the December 1979 extra issue of KEDI Economic Survey.

1.3 EMPLOYMENT AND LABOR
(Table 03. on page 14)

The unemployment rate rose to 6.0% in October, and indications are that the November rate will increase an additional 0.2%.

Compared to our previous forecast, forecast data here have been reduced slightly. Main factors contributing to this change are:

(1) A new projection of U.S. productivity, which shows a continued slight decline as compared to previous forecasts. Lower growth in productivity keeps more employees on payrolls.

(2) A slightly improved forecast for services during the rest of this year and throughout 1980 and 1981. Thus, unemployment in the service industries has been reduced somewhat.

The resulting forecast data for unemployment show the same trend as indicated in our previous forecasts. We expect unemployment to peak, although not dramatically, during the first quarter of 1980 and then

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Consumer Price Index, NSA	1967=100	195.3	207.0	214.1	221.1	226.9	217.3
Producer Price Index, NSA	1967=100	209.3	223.7	231.5	238.8	243.7	234.4
Implicit GNP Price Deflator	1972=100	152.1	160.2	163.7	167.0	170.1	165.3
Gross National Product	bil.$	2107.6	2292.1	2329.8	2395.4	2418.5	2359.1
Personal Cons. Expenditures	bil.$	1340.1	1454.2	1475.9	1527.7	1556.2	1503.5
Gross Private Dom. Investment	bil.$	345.6	373.8	395.4	393.7	407.5	392.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Consumer Price Index, NSA	1967=100	217.4	230.7	236.5	241.2	246.1	238.6
Producer Price Index, NSA	1967=100	237.0	251.2	259.7	269.5	277.1	264.4
Implicit GNP Price Deflator	1972=100	165.5	173.4	177.2	181.0	183.9	178.9
Gross National Product	bil.$	2359.0	2453.3	2510.6	2589.6	2655.1	2552.2
Personal Cons. Expenditures	bil.$	1504.4	1583.4	1604.5	1645.8	1689.4	1630.8
Gross Private Dom. Investment	bil.$	392.3	404.1	411.2	422.6	439.8	419.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	239.3	251.1	256.2	263.1	267.8	259.6
Producer Price Index, NSA	1967=100	270.1	280.3	286.7	292.5	297.8	289.3
Implicit GNP Price Deflator	1972=100	179.3	186.9	190.1	194.9	199.2	192.8
Gross National Product	bil.$	2555.6	2710.4	2782.1	2872.2	2968.7	2833.4
Personal Cons. Expenditures	bil.$	1634.5	1714.1	1753.1	1799.7	1832.1	1774.8
Gross Private Dom. Investment	bil.$	429.3	454.1	470.3	484.1	496.2	476.2

*Historical data

to gradually decline.

This is in line with government economists' predictions. Treasury Secretary G. William Miller feels that while a rise in the jobless rate is consistent with the general economic trend at the present time, he does not feel it is cause for alarm. Other government analysts feel that the economy is slowing down, but not sharply or suddenly.

As KEDI predicted previously, unemployment will primarily affect the automobile, construction, housing, rubber, paper, glass, stone and clay industries.

Forecast data for the average workweek of nonfarm workers also reflects a recessionary trend during the rest of 1979 and in 1980 and 1981:

Average workweek, nonfarm workers:

1979:3	35.6 hours	1980:2	34.9 hours
1979:4	35.3 hours	1980:3	35.3 hours
1980:1	34.2 hours	1980:4	35.5 hours

1.4 HOUSING

(Table 04. on page 16)

KEDI forecast for housing unit starts has been slightly reduced for the rest of the year and for the first quarter of 1980, compared to our October forecast.

KEDI's projection is more optimistic than the outlook of the majority of forecasters in this area.

We expect housing starts in 1980 to be down to approximately 1.6 million

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Population	mil.	218.5	219.6	220.1	220.7	221.3	220.4
Civilian Labor Force	mil.	100.4	102.4	102.9	103.2	103.8	103.1
Employed	mil.	94.4	96.5	97.0	97.2	97.0	96.9
-Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	91.0	93.2	93.7	93.8	93.7	93.6
Unemployment Rate	%	6.0	5.77	5.73	5.81	6.51	5.96

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.1	104.2	104.8	105.6	106.4	105.3
Employed	mil.	96.9	96.8	97.5	98.6	99.2	98.0
-Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
-Non Agriculture	mil.	93.6	93.5	94.1	95.2	95.9	94.6
Unemployment Rate	%	5.97	7.14	6.96	6.61	6.80	6.88

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.3	107.1	108.0	108.7	109.4	108.3
Employed	mil.	97.9	100.5	101.0	101.8	102.6	101.5
-Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
-Non Agriculture	mil.	94.5	97.2	97.7	98.4	99.3	98.2
Unemployment Rate	%	6.94	6.17	6.50	6.37	6.19	6.31

*Historical data

units; 1.1 million single-family units and 0.5 million multi-family units.

This contrasts with the recent pessimistic forecast of the National Association of Home Builders of 1.26 million to 1.4 million starts, and the Brookings Institution's prediction of 1.3 million starts.

Forecasters are in accord, however, that the first half of 1980 will be the worst and recovery will begin during the second half of the year. Despite this, the outlook continues to be bleak in general for the next two years, with stronger recovery not earlier than in the second half of 1982.

1.5 FEDERAL AND STATE AND LOCAL BUDGETS

(Table 05. on page 17)

Forecast data for Federal and State and local budgets have been adjusted here, chiefly due to the Commerce Department's routine update of third quarter 1979 revised estimates. Main adjustments are in the areas of state and local personal income taxes and surpluses.

KEDI has not incorporated an additional tax break measure into this forecast, although with the coming recession the outlook for a major tax break seems more likely.

A combined fiscal measure, aimed at holding down unemployment and boosting consumer spending and business outlays (Assumption No. 3), has been incorporated into all KEDI forecasts since 1976.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Single-Family Housing Starts	mil. units	1.433	1.119	1.262	1.236	1.102	1.180
Multifamily Housing Starts	mil. units	.567	.496	.575	.589	.531	.548
Mobile Homes Shipments	thous units	276	284	276	260	230	263
Housing Permits Issued	mil. units	1.680	1.405	1.503	1.306	1.107	1.330
Construction Costs-Commerc.	1972=100	164.3	172.7	177.6	185.7	196.0	183.0
Construction Costs-Resident.	1972=100	161.8	171.8	175.5	182.3	192.7	180.6

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.180	.927	.991	1.075	1.013	1.002
Multifamily Housing Starts	mil. units	.548	.487	.517	.529	.561	.524
Mobile Homes Shipments	thous units	263	195	224	236	240	224
Housing Permits Issued	mil. units	1.330	.976	.984	1.003	.994	.989
Construction Costs-Commerc.	1972=100	183.0	198.7	203.6	212.9	218.0	208.3
Construction Costs-Resident.	1972=100	180.6	194.9	202.1	209.2	215.1	205.3

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil. units	1.002	.995	1.120	1.187	1.179	1.122
Multifamily Housing Starts	mil. units	.524	.541	.572	.601	.628	.586
Mobile Homes Shipments	thous units	224	246	262	273	289	268
Housing Permits Issued	mil. units	.989	.965	1.027	1.105	1.197	1.074
Construction Costs-Commerc.	1972=100	208.3	222.1	226.5	230.9	241.2	230.2
Construction Costs-Resident.	1972=100	205.3	218.1	221.6	224.8	228.6	223.3

*Historical data

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TABLE 05. FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Federal Govt.:							
Income Taxes	bil.$	189.4	207.4	220.6	229.5	235.9	223.4
Corporate Profit Tax Accruals	bil.$	72.0	77.2	74.9	79.8	81.3	78.3
Surpl./Deficit	bil.$	-27.7	-11.7	-7.0	-11.3	-14.1	-11.0
State and Local Governments:							
Income Taxes	bil.$	37.5	40.8	42.9	41.4	42.9	42.0
Corporate Profit Tax Accruals	bil.$	12.5	14.1	13.7	14.8	14.9	14.8
Surpl./Deficit	bil.$	27.4	27.6	19.7	25.7	20.9	23.5

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	223.4	239.8	243.4	250.8	253.2	246.8
Corporate Profit Tax Accruals	bil.$	78.3	81.2	82.9	87.4	91.0	85.6
Surpl./Deficit	bil.$	-11.0	-17.1	-18.7	-19.3	-17.1	-18.1
State and Local Governments:							
Income Taxes	bil.$	42.0	43.5	45.7	48.5	50.1	47.0
Corporate Profit Tax Accruals	bil.$	14.8	15.3	16.7	17.8	18.7	17.1
Surpl./Deficit	bil.$	23.5	20.6	20.1	19.2	18.0	19.5

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil.$	246.8	259.8	260.3	269.1	271.8	265.3
Corporate Profit Tax Accruals	bil.$	85.6	94.6	97.8	102.4	108.7	100.9
Surpl./Deficit	bil.$	-18.1	-20.9	-22.4	-21.3	-19.8	-21.1
State and Local Governments:							
Income Taxes	bil.$	47.0	51.6	53.9	56.0	57.1	54.7
Corporate Profit Tax Accruals	bil.$	17.1	19.4	20.5	22.3	23.8	21.5
Surpl./Deficit	bil.$	19.5	18.0	19.3	21.5	23.7	20.6

*Historical data

1.6 INCOME
(Table 06. on page 19)

Personal income was up 0.8% in October and is expected to rise an additional 0.3% in November, indicating that the economy is still fairly strong and does not show signs of a drastic decline during the coming months.

Third quarter 1979 data show a deteriorating relationship between income and personal savings. During this quarter, personal savings dropped to $70.5 billion from $85.9 billion, indicating that despite an increase in income, consumer spending has been increasingly financed from the population's savings. Our projection shows that this trend will continue during coming quarters and will not improve earlier than the third quarter of 1980.

This contrasts with opinions of government economists, who contend that the savings rate will return to normal soon. William Cox, Commerce Department analyst has said he expects consumer spending to decline during the coming months and savings to increase.

Corporate income rose more rapidly than personal income during the third quarter of 1979. Corporate profits were up 6.2%, and KEDI predicts continuous, strong increases in corporate profits during the coming quarters, despite the apparent recession.

In line with our forecast are recent projections by Wall Street analysts, who, although more cautious than they were in recent months, expect an average 5.1% increase in profits next year. This is taken from the most recent compilation of 10,104 estimates of 1980 earnings collected by economists of the Institutional Brokers Estimate System.

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Personal Income	bil.$	1717.4	1852.5	1892.5	1945.9	1982.8	1918.4
Personal Dispos. Income	bil.$	1458.4	1572.2	1601.7	1639.4	1659.4	1618.2
Compensation of Employees	bil.$	1304.5	1411.2	1440.6	1472.9	1482.7	1451.9
Corp. Profits After Tax	bil.$	121.5	142.0	139.3	147.9	143.6	143.2
Personal Saving	bil.$	72.0	79.2	85.9	70.5	73.5	77.3
Average Weekly Earnings	$	203.3	212.4	217.8	221.2	223.4	218.7

Indicator	Unit	1979	1980				1980
			1	2	3	4	
Personal Income	bil.$	1918.4	2034.6	2145.7	2205.2	2286.7	2168.1
Personal Dispos. Income	bil.$	1618.2	1705.3	1759.2	1858.7	1976.4	1824.9
Compensation of Employees	bil.$	1451.9	1509.9	1604.6	1698.7	1764.0	1644.3
Corp. Profits After Tax	bil.$	143.2	145.6	149.7	166.8	173.7	159.0
Personal Saving	bil.$	77.3	75.7	80.2	87.3	90.4	83.4
Average Weekly Earnings	$	218.7	225.7	229.2	233.1	235.6	230.7

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil.$	2168.1	2345.2	2416.7	2484.9	2547.3	2448.5
Personal Dispos. Income	bil.$	1824.9	2010.3	2048.6	2127.8	2192.2	2094.7
Compensation of Employees	bil.$	1644.3	1802.1	1852.0	1955.8	1998.6	1902.1
Corp. Profits After Tax	bil.$	159.0	177.8	184.3	189.8	191.8	185.9
Personal Saving	bil.$	83.4	94.8	98.6	99.5	103.6	99.1
Average Weekly Earnings	$	230.7	240.2	244.3	248.7	259.4	248.2

*Historical data

1.7 MONEY AND CREDIT
(Table 07. on page 21)

Forecast data for money and credit have been changed slightly from our October issue. Data for the money supply have been increased and data for commercial and industrial loans have been decreased, due to routine revisions of the October 1979 estimates and early November statistics.

KEDI maintains its assumption of a relaxation of the Federal Reserve monetary and credit policies beginning the second quarter of 1980. First indications of possible easing of current tight policies appeared recently when Federal Reserve Board chairman Paul Volcker admitted that if the economy slows, lower interest rates may be a possibility. Volcker also said that oil price hikes could force the Fed to raise its low target levels for the money supply.

KEDI's forecast does not include any substantial increases or declines in the availability of credit for the rest of this year and for 1980 and 1981. This has also been recently confirmed by a Fed official, who said that a nationwide "credit crunch" is unlikely.

Also, recently released data for consumer credit in September and early statistics for October and November confirm KEDI's prediction. The statistics show constant, strong increases in all categories and indicate that consumers handle credit more extensively than businesses.

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 08. on page 23)

Despite recent decreases in the prime lending rate and possible further decreases in December, KEDI maintains the position that more significant cuts in interest rates will not occur before the second quarter of 1980,

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
Currency+Demand Deposits	bil.$	352.8	357.0	373.8	382.6	392.1	376.4
Time Deposits, Adjusted	bil.$	580.2	618.7	635.2	643.3	660.1	639.3
Consumer Instal. Credit	bil.$	275.6	278.3	284.8	290.6	297.9	297.9
Commerc.and Ind. Loans at Banks	bil.$	230.9	243.5	255.2	259.3	263.8	263.8
Negotiable Cert.of Deposits	bil.$	96.6	99.0	103.9	111.9	114.5	114.5
Mortgages at S&L Assns.	bil.$	432.9	441.4	447.5	450.5	452.9	452.9
Indicator	Unit	1979	1980				1980
			1	2	3	4	
Currency+Demand Deposits	bil.$	376.4	402.1	411.5	419.7	424.7	414.5
Time Deposits, Adjusted	bil.$	639.3	668.2	682.1	698.0	719.8	692.0
Consumer Instal. Credit	bil.$	297.9	301.8	306.1	312.3	317.1	317.1
Commerc.and Ind. Loans at Banks	bil.$	263.8	267.0	268.7	270.6	277.8	277.8
Negotiable Cert.of Deposits	bil.$	114.5	120.1	126.4	129.5	130.1	130.1
Mortgages at S&L Assns.	bil.$	452.9	452.1	459.5	463.2	478.7	478.7
Indicator	Unit	1980	1981				1981
			1	2	3	4	
Currency+Demand Deposts	bil.$	416.5	430.5	437.1	450.6	462.1	445.1
Time Deposits, Adjusted	bil.$	692.0	729.0	748.1	760.4	780.5	754.5
Consumer Instal. Credit	bil.$	317.1	323.1	331.9	340.8	352.3	352.3
Commerc.and Ind. Loans at Banks	bil.$	277.8	282.9	295.6	311.7	321.9	321.9
Negotiable Cert.of Deposits	bil.$	130.1	132.1	136.3	141.6	151.7	151.7
Mortgages at S&L Assn.	bil.$	478.7	481.5	494.9	502.9	512.7	512.7

*Historical data

and even then the decline will not be dramatic.

For 1980, KEDI predicts that the prime rate will drop not less than 12% at the end of the year, the mortgage rate about 11% and the AAA bond rate approximately 10% at the end of the year (see Table 08., Interest Rates, Yields and Securities Prices).

Some forecasters see a more rosy future, however. Some bankers see the prime rate slipping below 11% by the end of next year as the demand for business credit decreases. Economists of Bankers Trust predict the rate will be about 10% by the end of 1980. Officials of the Irving Bank Corp., parent company of Irving Trust Co., have predicted that short-term interest rates will decline as much as five percentage points by the end of next year.

Other economists are more cautious. An executive of Salomon Brothers, a New York-based investment firm, finds speculation about declining interest rates "premature." Other experts feel that current reductions are merely temporary, as inflation is still at high levels.

The KEDI's stock market forecast remains essentially unchanged when compared with data presented in the October 1979 issue.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Housing Starts for the third quarter 1979 have been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the FEDERAL RESERVE. Industrial Production. G.12.3, October, 1979 issue, Table 1-A, page 2. Forecast data are from Business Forecasts 1979, published by the Federal

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1978*	1979				1979
			1*	2*	3*	4	
3 mo Treas.Bills Rate(new issues)	%	7.22	9.26	9.61	9.89	11.98	10.19
Prime Rate	%	9.06	11.75	11.75	12.31	15.12	12.73
Mortgage Rate, New Homes	%	9.30	9.97	10.05	10.17	11.88	10.52
Aaa Bonds Rate	%	8.73	9.29	9.54	9.72	10.08	9.66
Long Term Govt. Bonds Yield	%	8.48	9.03	9.19	9.36	10.51	9.52
Standard & Poor's 500 Average	1941-43=100	96.11	99.35	100.18	101.54	104.37	101.36

Indicator	Unit	1979	1980				1980
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	10.14	12.36	11.21	10.95	10.62	11.29
Prime Rate	%	12.73	14.86	13.81	12.76	11.53	13.24
Mortgage Rate, New Homes	%	10.44	11.82	11.40	11.22	10.96	11.35
Aaa Bonds Rate	%	9.65	10.34	10.11	10.02	9.81	10.07
Long Term Govt. Bonds Yield	%	9.51	10.50	10.43	10.22	9.87	10.26
Standard & Poor's 500 Average	1941-43=100	101.36	101.14	99.61	102.52	103.03	101.58

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas.Bills Rate(new issues)	%	11.29	10.23	9.94	9.78	9.51	9.86
Prime Rate	%	13.24	11.01	10.16	9.79	9.48	10.11
Mortgage Rate, New Homes	%	11.35	10.54	10.30	10.01	9.80	10.17
Aaa Bonds Rate	%	10.07	9.57	9.41	9.28	9.45	9.43
Long Term Govt. Bonds Yield	%	10.26	9.69	9.50	9.43	9.40	9.51
Standard & Poor's 500 Average	1941-43=100	101.58	103.05	105.28	107.46	108.17	105.99

*Historical data

Reserve Bank of Richmond, Va., February 1979, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

HOUSING UNITS STARTS

(third quarter 1979, in mil. units)

Actual: 1.825

Forecaster	Page in Business Forecasts 1979	Forecast	% of Accuracy
Consensus of National Association of Business Economists	18	1.748	-4.2
American Statistical Association and National Bureau of Economic Research	19	1.630	-10.3
Cyrus J. Lawrence, Inc.	21	1.500	-17.8
General Electric Co.	23	1.430	-21.6
UCLA National Business Forecast	25	1.491	-18.3
The Fidelity Bank	26	1.700	-6.8
Bankers Trust Company	27	1.500	-17.8
Chemical Bank	28	1.650	-9.6
KEDI	29	1.804	-1.2
Manufacturers Hanover Trust	30	1.589	-12.9
Argus Research Corporation	31	1.690	-7.4
Morgan Guaranty	32	1.522	-16.6